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Benson & Hedges (Canada) Limited  
Annual Report 1976

YBENSON







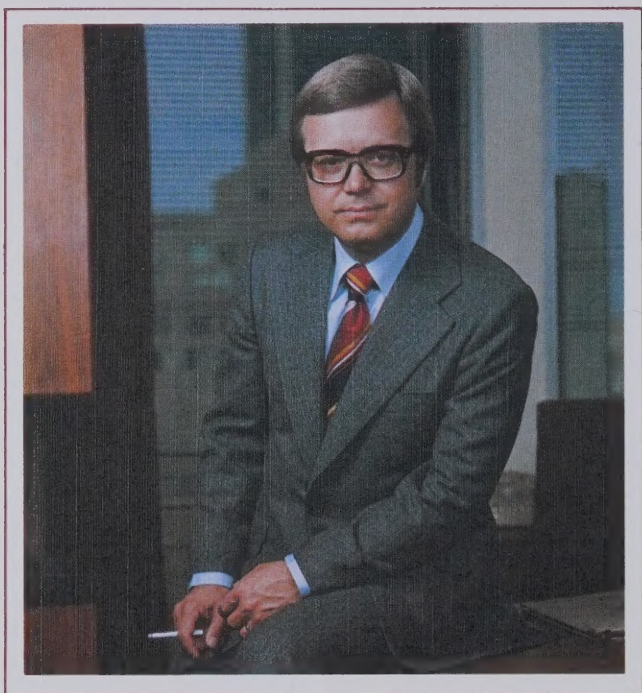


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## Review of the Year



John E. Broen  
President

8.3%

13.2%

Consolidated sales for the Company rose by 7.0% to \$214,487,000 compared with \$200,398,000 in 1975. Cigarette sales also reached a record level in 1976 at 9.1 billion units, a 4.2% increase from 8.7 billion in 1975, and the Company's domestic market share for the year was 14.7%.

Although the Company reported record sales and unit volume, consolidated net earnings from operations declined from \$8,429,000 to \$7,141,000 over the year due principally to federal price controls which prevented your Company from realizing selling price increases sufficient to offset cost increases for labor, materials, and leaf tobacco. Also contributing to a decline in net earnings was a provision made on the 1976 statement of earnings for the divestment of the B & H Retail tobacco store chain in 1977. It was concluded that, in a climate of depressed retail sales expected over the next several years, an adequate return on investment could not be contemplated in the foreseeable future. Consequently, Benson & Hedges has agreed to sell to Cara Operations Limited the majority of the B & H Retail stores across Canada. The remaining stores will be disposed of individually.

### Marketing

It has become apparent that the preponderance of growth in the cigarette industry in the immediate future will be generated in the high filtration, lowered tar and nicotine segment of the market. The Company's leading brand in this segment, Viscount, one of the fastest growing brands in Canada, enjoyed a 114% increase in sales over 1975. The success of this brand inspired the recent introduction of Viscount No. 1 Ultra Light, a new, milder version of the parent brand.

Belvedere Extra Milds, a high filtration version of our popular Belvedere brand, has now been introduced throughout Canada after successful test market trials in Kingston, Ontario and Winnipeg, Manitoba during 1976. The Company's original entry in the high filtration market, Belmont Milds, also displayed solid growth as sales rose 9.8% over 1975.

Sales of the Company's other major brands, Mark Ten, Belvedere and Benson & Hedges 100's recorded slight volume declines in 1976.

During 1977, heightened competition in the high filtration segment of the cigarette market is foreseen as numerous new brand entries attempt to establish a foothold with those smokers desiring a lighter, milder smoke. It is our Company's objective to command a major and growing share of this expanding high filtration segment.



## **Operations**

The rapid growth of high filtration cigarette sales has placed unusual demands on our manufacturing and engineering resources. Productivity has been improved by converting some of the manufacture of this type of cigarette to the newest high speed production equipment. The Company's filter manufacturing facilities have been expanded and automated with particular emphasis on charcoal filter production required for Viscount, Viscount No. 1 Ultra Light and Belmont cigarettes.

Productivity gains have also been achieved through the installation of automatic cigarette handling systems at both the Brampton, Ontario and Royalmount, Quebec manufacturing facilities. A new Quebec Regional finished goods distribution warehouse located on Montpelier Avenue in St. Laurent was put into full operation in early 1977. Also relocated in the new facility are the Quebec Regional Sales offices.

## **Smoking and Health**

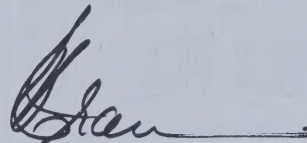
Smoking and health research continued to be a controversial issue. While failing to establish clinical evidence that cigarettes are the cause of any human disease, critics of cigarette smoking still used questionable statistical comparisons of smokers and non-smokers. Fortunately, science is now recognizing the need to broaden its research to include factors such as heredity, stress, behaviour, occupational hazards, immunology and other data that will offer alternative hypotheses to the smoking and health question.

Increased activities by non-smokers rights groups was evident in 1976. These groups sought to ban smoking in a variety of public places citing a health hazard to non-smokers through exposure to tobacco smoke. Thorough reviews of independent scientific research conclude that inhalation of the by-products from tobacco smoke does not represent a health hazard to non-smokers.

Your Company believes that legislation forbidding smoking in public places is an unfair assault on the individual rights of smokers. What is needed is courtesy and respect for freedom of choice by smokers and non-smokers alike, not legislation.

Benson & Hedges will continue its support of independent medical research in relation to smoking and health in cooperation with other Canadian cigarette manufacturers and through the Canadian Tobacco Manufacturers' Council.

I would like to take this opportunity to extend a note of personal thanks to each of our employees for the warm welcome accorded my family and me upon our return to Canada in January of 1977, following assignments in Asia with our associated companies. I know that 1976 was a difficult yet not unrewarding year for those at Benson & Hedges, and 1977 will present similar challenges for all. To each of you, let me voice my appreciation for your hard work and encourage your continued efforts to meet and surmount the demands which will be placed upon us over the coming year.



John E. Broen  
President





## Product Highlights

### Viscount is the mildest

Only one cigarette of the dozens you can buy has the right to call itself the mildest of all. That cigarette is Viscount. Undisputed. Unchallenged.

Viscount achieves this unique level of mildness by fitting a unique, four-stage Polyvent Filter System™ at the end of every Viscount. The filter design allows a surprising amount of flavour to pass through, while going about its serious business.

You get the full inside story of Viscount's Polyvent Filter System on the back of every pack. Find out all about Viscount. Buy a pack today.



**Canada's mildest cigarette: Viscount.**

Warning: Health and Welfare Canada advises that danger to health increases with amount smoked—avoid inhaling. No. per cigarette. Regular: 1mg. "tar" 0.1mg. nicotine. King: 1mg. "tar" 0.1mg. nicotine.



**Viscount:** Canada's fastest growing cigarette brand during 1976, continued to provide consumers with an unparalleled level of extra mild smoking satisfaction.



**Benson & Hedges 100's:** A unique, elegant product, Benson & Hedges 100's is the dominant entry in Canada's extra length segment.

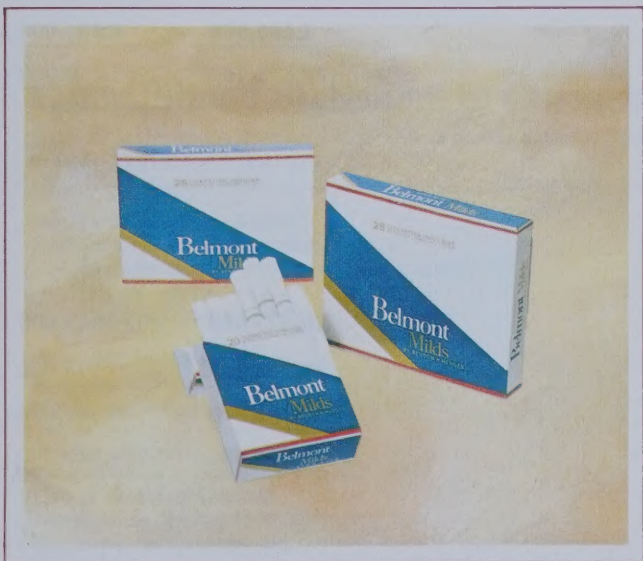




**Mark Ten:** The Company's proven leader in cigarette quality and value, offering consumers full flavour smoking enjoyment.



**Belvedere:** A flavourful Virginia product supported by attention gaining image advertising. The year 1976 saw the extension of the Belvedere family of products with the launch of Belvedere Extra Milds.



**Belmont Milds:** As the first Canadian cigarette to incorporate activated charcoal as a natural filtering agent, Belmont Milds continues to find favour amongst a broader base of Canadian smokers.

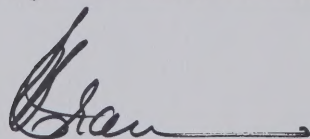


# Consolidated Balance Sheet as at December 31, 1976

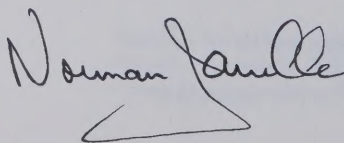
Benson & Hedges (Canada) Limited and Subsidiary Company

<b>Assets</b>	<b>1976</b>	<b>1975</b>
<b>Current Assets</b>		
Notes receivable—current portion	\$ 1,536,000	\$ 1,536,000
Accounts receivable (note 3)	30,204,000	21,470,000
Accounts receivable—affiliates	257,000	122,000
Inventories (note 4)	45,848,000	40,680,000
Prepaid expenses	566,000	391,000
Total current assets	78,411,000	64,199,000
<b>Notes Receivable</b> —less current portion	18,768,000	20,301,000
<b>Fixed Assets</b> (note 5)		
Land, buildings and equipment—at cost	34,505,000	30,222,000
Accumulated depreciation	13,108,000	10,502,000
	21,397,000	19,720,000
	<u>\$118,576,000</u>	<u>\$104,220,000</u>
<b>Liabilities</b>	<b>1976</b>	<b>1975</b>
<b>Current Liabilities</b>		
Bank indebtedness	\$ 26,050,000	\$ 26,740,000
Notes payable	24,946,000	8,155,000
Accounts payable and accrued liabilities	14,828,000	11,136,000
Income taxes payable	699,000	2,649,000
Total current liabilities	66,523,000	48,680,000
<b>Long-Term Debt</b> (note 6)	—	9,985,000
<b>Deferred Income Taxes</b>	4,450,000	4,694,000
	<u>70,973,000</u>	<u>63,359,000</u>
<b>Shareholders' Equity</b>		
Capital Stock		
Authorized—		
6,000,000 shares without nominal or par value		
Issued and fully paid—		
4,068,528 shares	20,343,000	20,343,000
Retained Earnings	27,260,000	20,518,000
	47,603,000	40,861,000
	<u>\$118,576,000</u>	<u>\$104,220,000</u>

Signed on Behalf of The Board



Director



Director



## Consolidated Statement of Earnings

Benson & Hedges (Canada) Limited and Subsidiary Company  
For the Year Ended December 31, 1976

	1976	1975
<b>Sales</b>	✓ \$214,487,000	✓ \$200,398,000
Less: Excise and sales taxes	<u>117,295,000</u>	<u>112,160,000</u>
	<u>97,192,000</u>	<u>88,238,000</u>
<b>Costs</b>		
Manufacturing, distributing, selling, general and administrative	80,979,000	70,734,000
Depreciation	2,040,000	1,573,000
Interest on long-term debt	115,000	600,000
Other interest - net	<u>1,620,000</u>	<u>324,000</u>
	<u>84,754,000</u>	<u>73,231,000</u>
<b>Earnings Before Income Taxes</b>	<u>12,438,000</u>	<u>15,007,000</u>
<b>Provision for Income Taxes</b>		
Current	5,190,000	5,777,000
Deferred	<u>107,000</u>	<u>801,000</u>
	<u>5,297,000</u>	<u>6,578,000</u>
<b>Earnings Before Extraordinary Item</b>	✓ <u>7,141,000</u>	✓ <u>8,429,000</u>
<b>Extraordinary Item</b>		
Provision for loss on planned disposal of certain assets (note 2)	✓ <u>399,000</u>	<u>—</u>
<b>Net Earnings for the Year</b>	<u>\$ 6,742,000</u>	<u>\$ 8,429,000</u>

## Consolidated Statement of Retained Earnings

Benson & Hedges (Canada) Limited and Subsidiary Company  
For the Year Ended December 31, 1976

	1976	1975
<b>Balance - Beginning of Year</b>	\$ 20,518,000	\$ 12,089,000
Net earnings for the year	<u>6,742,000</u>	<u>8,429,000</u>
<b>Balance - End of Year</b>	<u>\$ 27,260,000</u>	<u>\$ 20,518,000</u>

## Consolidated Statement of Changes in Financial Position

Benson & Hedges (Canada) Limited and Subsidiary Company  
For the Year Ended December 31, 1976

	1976	1975
<b>Source of Working Capital</b>		
Earnings before extraordinary item	\$ 7,141,000	\$ 8,429,000
Add items not affecting working capital:		
Depreciation	2,040,000	1,573,000
Deferred income taxes	<u>107,000</u>	<u>801,000</u>
Provided from operations	9,288,000	10,803,000
Disposal of fixed assets	251,000	62,000
Notes receivable	<u>1,533,000</u>	<u>1,204,000</u>
Source of working capital	<u>11,072,000</u>	<u>12,069,000</u>
<b>Use of Working Capital</b>		
Repayment of long-term debt	9,985,000	—
Additions to fixed assets	4,621,000	5,062,000
Net reduction in working capital on provision for loss on planned disposal of certain assets (note 2)	<u>97,000</u>	<u>—</u>
Use of working capital	<u>14,703,000</u>	<u>5,062,000</u>
<b>Increase (Decrease) in Working Capital</b>	<u>(3,631,000)</u>	<u>7,007,000</u>
<b>Working Capital - Beginning of Year</b>	<u>15,519,000</u>	<u>8,512,000</u>
<b>Working Capital - End of Year</b>	<u>\$ 11,888,000</u>	<u>\$ 15,519,000</u>



# Notes to Consolidated Financial Statements

Benson & Hedges (Canada) Limited and Subsidiary Company  
For the year ended December 31, 1976

## 1. Summary of Accounting Policies

The significant accounting policies followed by Benson & Hedges (Canada) Limited and subsidiary company are presented below to assist the reader in reviewing the Consolidated Financial Statements and other data contained in this report. These policies comply with generally accepted accounting principles and have been consistently applied.

### (a) Consolidation

The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiary B & H Retail Limited.

### (b) Receivables

Current earnings are charged and an allowance is credited with a provision for doubtful accounts based on experience and on any unusual circumstances which may affect the ability of customers to meet their obligations. Accounts deemed uncollectible are charged against this allowance. Receivables are reported on the Balance Sheet net of such accumulated allowances.

### (c) Inventories

Inventories are valued at the lower of cost and net realizable value. The cost of Leaf Tobacco is determined on an average cost basis and the cost of other inventories is determined generally on a first in, first out basis. It is a generally recognized industry practice to classify the total amount of Leaf Tobacco as a current asset although part of such inventory, because of the duration of the aging process, ordinarily would not be utilized within one year.

### (d) Fixed Assets

Maintenance and repairs are charged to income and expenditures for renewals and improvements are capitalized. Provision for depreciation of assets is recorded by a charge against income at the following rates:

Asset	Rates
Land improvements	10%
Building and building equipment	2.5%/10%
Machinery and equipment	6 $\frac{2}{3}$ %-20%
Furniture, fixtures and data processing equipment	10%-33 $\frac{1}{3}$ %
Transportation equipment	25%
Leasehold improvements	Term of lease

The above rates are considered adequate to amortize the cost of such assets over their useful lives using the straight line method of computation.

### (e) Income Taxes

The provision for income taxes is calculated separately on reported pre-tax earnings for the Parent Company and its subsidiary. Certain items of income and expense included in the Financial Statements, such as depreciation, are claimed in different years for tax purposes in accordance with applicable income tax laws. The resulting difference between the Financial Statement income tax provision and income taxes currently payable is reported in the Financial Statements as deferred income taxes.

### (f) Pension Plans

The Company and its subsidiary have pension plans covering substantially all of their employees. Prior service costs are amortized over periods of up to fifteen years and accrued pension costs are funded with independent trustees.

## 2. Provision for Loss on Planned Disposal of Certain Assets

The Company has recorded a provision in the amount of \$750,000 less deferred income taxes of \$351,000 for losses on the planned disposal of certain assets of its wholly-owned subsidiary B & H Retail Limited. The net effect of this provision was a reduction in working capital of \$97,000, detailed as follows:

Disposal of Fixed Assets	\$653,000
Deferred Income Taxes	(351,000)
Net Charge to Income	<u>(399,000)</u>
	<u>\$ (97,000)</u>

## 3. Accounts Receivable

Accounts receivable include trade receivables of \$29,371,000 in 1976 and \$19,977,000 in 1975 offset by allowances for doubtful accounts and for sales discounts of \$986,000 in 1976 and \$626,000 in 1975.

## 4. Inventories

Inventory components are as follows:

	1976	1975
Leaf Tobacco	\$35,329,000	\$30,825,000
Packaging and other raw materials	1,828,000	1,479,000
Work in process	279,000	304,000
Finished goods	7,016,000	7,045,000
Machine parts and supplies	1,396,000	1,027,000
Total inventories	<u>\$45,848,000</u>	<u>\$40,680,000</u>



**5. Fixed Assets**

	1976			1975		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Land	\$ 828,000	\$ —	\$ 828,000	\$ 828,000	\$ —	\$ 828,000
Land improvements	99,000	44,000	55,000	99,000	34,000	65,000
Buildings and building equipment	8,095,000	2,665,000	5,430,000	7,851,000	2,321,000	5,530,000
Machinery and equipment	19,120,000	8,096,000	11,024,000	16,502,000	6,977,000	9,525,000
Furniture, fixtures and data processing equipment	1,133,000	716,000	417,000	1,027,000	500,000	527,000
Transportation equipment	1,350,000	361,000	989,000	444,000	133,000	311,000
Leasehold improvements	1,684,000	1,226,000	458,000	1,600,000	537,000	1,063,000
Construction and machinery installation in progress	2,196,000	—	2,196,000	1,871,000	—	1,871,000
	<u>\$34,505,000</u>	<u>\$13,108,000</u>	<u>\$21,397,000</u>	<u>\$30,222,000</u>	<u>\$10,502,000</u>	<u>\$19,720,000</u>

The provision for depreciation included in the statements of earnings for 1976 and 1975 is \$2,040,000 and \$1,573,000 respectively computed on the straight line method.

**6. Long-Term Debt**

Long-term debt consists of:

6% loan from Parent Company (U.S. \$10,000,000) which was repaid in March 1976

	1976	1975
	<u>\$ Nil</u>	<u>\$9,985,000</u>

**7. Rental Expense**

Total rental expense included in the statements of earnings for the years ended December 31, 1976 and December 31, 1975 was \$1,063,000 and \$1,368,000 respectively.

The minimum rental commitments under all non-cancellable leases for each of the five years ending December 31 are as follows:

1977	\$448,000	1978	\$267,000	1979	\$241,000	1980	\$232,000	1981	\$231,000
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**8. Remuneration of Directors and Officers**

During the year the directors of the Company numbered thirteen (1975—thirteen) and their aggregate remuneration as directors was \$15,000 (1975—\$16,000). Six of the Company's directors are also officers of the Company (1975—five). The officers of the Company numbered nine (1975—nine) and their aggregate remuneration as officers was \$294,000 (1975—\$230,000).

**9. Contingent Liabilities**

During 1974, the Company instituted legal action against a supplier to recover the cost of defective materials delivered in prior years to the Formosa Spring Brewery Division in the amount of \$536,000. This action is being defended by the supplier and the supplier has made a counter claim for damages in the amount of \$1,507,000. This claim has been denied and with the advice of counsel, is being vigorously contested. Accordingly, no provision or adjustment has been made in the financial statements.

**10. Commitments**

As at December 31, 1976 the Company has made financial commitments of \$1,176,000 for purchases of equipment and \$2,800,000 for purchases of inventories.

**11. Wage and Price Controls**

The Company is subject to Government controls of profit margins, prices, dividends and compensation under the terms of the Anti-Inflation Act and Regulations which became effective October 14, 1975 and is due to expire on or before December 31, 1978. Because of uncertainties respecting the application to the operations of the Company of certain provisions and definitions contained in the Act and Regulations, the final impact of this legislation on the Company's profit margins, prices and compensation arrangements for the period October 14, 1975 to December 31, 1976 is not presently subject to absolute determination. Nevertheless, a review of the Company's operations appears to indicate that compliance with the legislation has occurred to December 31, 1976.

According to the terms of the legislation, it appears that the amount of dividends which the Company can declare or pay during the period from December 31, 1976 to October 13, 1977 will be limited to approximately \$2,141,000.

## Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Benson & Hedges (Canada) Limited as at December 31, 1976 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Coopers & Lybrand*  
 Coopers & Lybrand  
 Chartered Accountants, Montréal  
 January 7, 1977

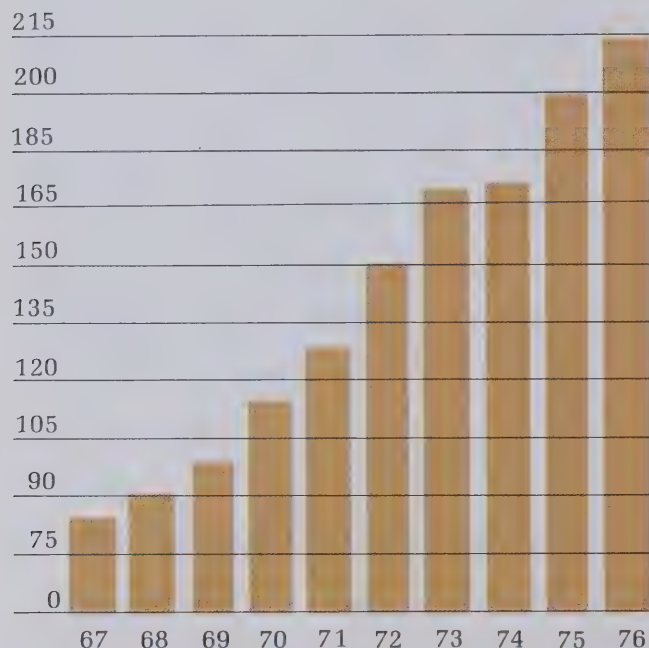


## Benson & Hedges (Canada) Limited

For the year ended December 31, 1976

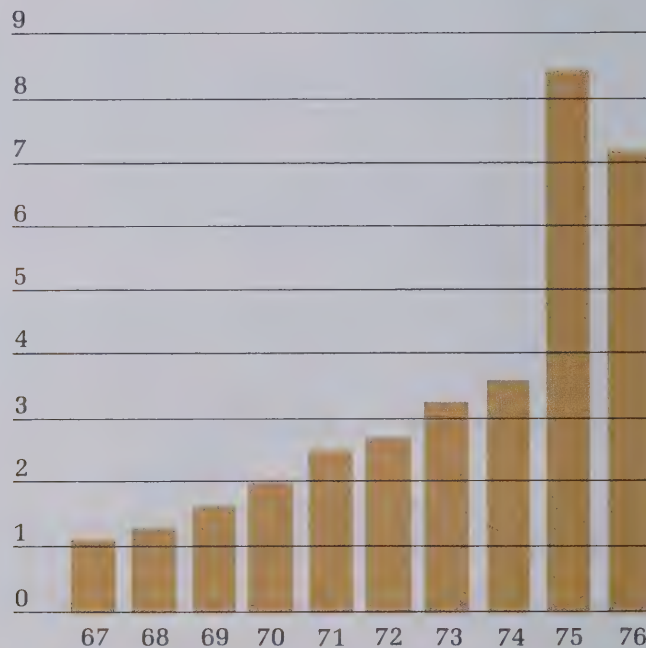
### Sales

Millions of Dollars



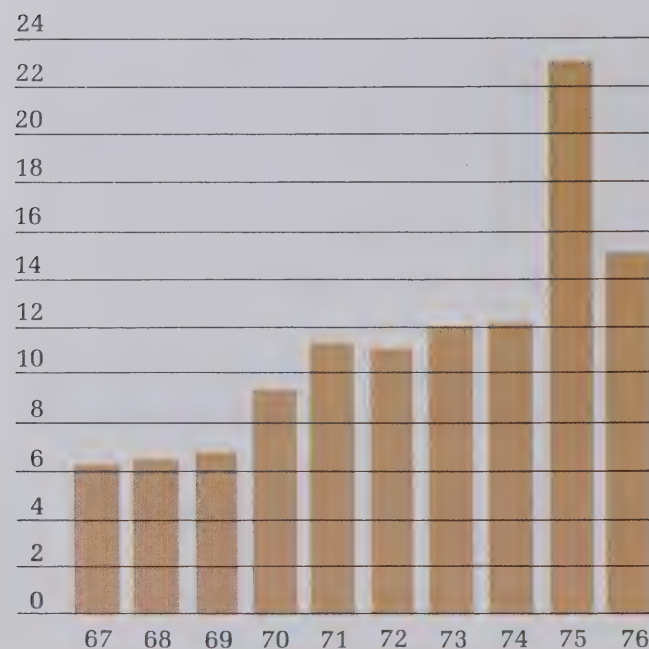
### Net Earnings

Millions of Dollars (before extraordinary items)



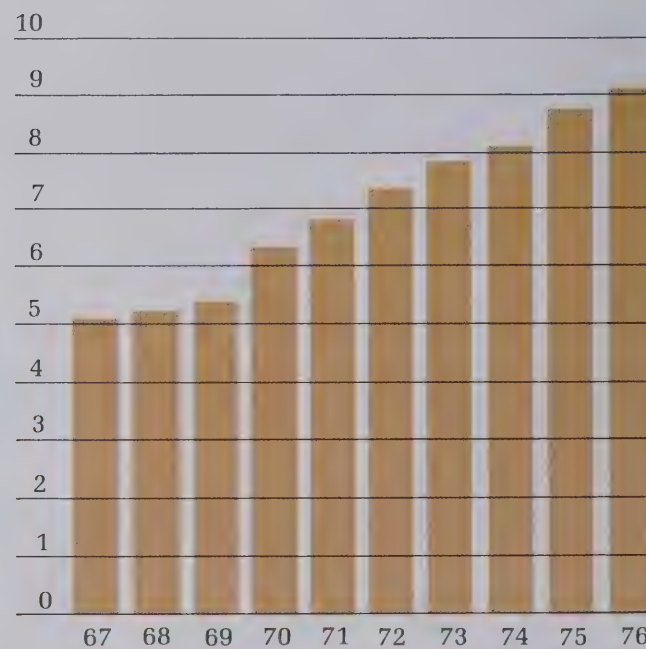
### After-Tax Return on Shareholders' Equity

Percentages



### Sales Units

Billions of Cigarettes







## Benson & Hedges and the Community



Benson & Hedges (Canada) Limited, as a Canadian corporation, recognizes its responsibility to the communities in which the Company operates.

We contribute financial and promotional assistance for many projects that provide a valuable service to the community. The Belvedere Rodeo Awards, one such program, was introduced in 1975 and is now held annually in Western Canada during the summer months.

In addition to community activities, cultural and social endeavors are supported throughout the year by our corporate and charitable donations program. Our contribution to the visual and performing arts dates back to 1959 and includes the 1974 World Crafts Exhibition "In Praise of Hands". In 1976, the Company sponsored a major Eskimo art exhibition, "The People Within - Art From Baker Lake". This two-month show was presented in Toronto at the Art Gallery of Ontario in July and Montreal at the Saidye Bronfman Centre in August.



Untitled, 1972-73 by Jessie Oonark,  
wool and felt; embroidery floss. An exhibit from "The People Within - Art From Baker Lake"





## Benson & Hedges (Canada) Limited

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### Directors

**Hugh Cullman**  
Chairman of the Board  
President, Philip Morris International

**Georges Audet**  
Director  
Partner, Lafleur & Brown

**Paul Bienvenu**  
Director Emeritus  
Financial Consultant

**John E. Broen**  
Director  
President, Benson & Hedges (Canada) Limited

**John B. Claxton, Q.C.**  
Director  
Partner, Lafleur & Brown

**Norman Janelle**  
Director  
Vice President, Chief Administrative Officer  
Philip Morris Asia/Canada

**Hamish Maxwell**  
Director  
Executive Vice President, Philip Morris International

**Ross R. Millhiser**  
Director  
President, Philip Morris Incorporated

**R. William Murray**  
Director  
Vice President, Philip Morris International

**Oscar Y. Primeau**  
Director  
Vice President, Benson & Hedges (Canada) Limited

**John G. Pritchard**  
Director  
Vice President, Benson & Hedges (Canada) Limited

**The Hon. Maurice Sauvé, P.C.**  
Director  
Vice President, Administration  
Consolidated Bathurst Limited

**William Stevenson**  
Director  
President, Millbrook Industries Limited

**William H. Webb**  
Director  
Vice President, Philip Morris International

### Officers

**Hugh Cullman**  
Chairman of the Board

**John E. Broen**  
President

**Norman Janelle**  
Secretary and Treasurer

**Oscar Y. Primeau**  
Vice President Sales

**John G. Pritchard**  
Vice President Manufacturing

**Ronald Robinson**  
Director of Finance  
and Administration

**Ronald Bulmer**  
Director of Marketing

**Donald K. Marshall**  
Comptroller

**Georges Audet**  
Assistant Secretary

### Auditors

Coopers & Lybrand

### Bankers

The Royal Bank of Canada  
The Bank of Montreal

### Legal Counsel

Lafleur & Brown  
Miller, Thompson, Sedgewick,  
Lewis & Healy





